IMPACT OF GOODS AND SERVICES TAX ON AGRICULTURE SECTOR

(WITH REFERENCE TO HARDA DISTRICT)

A Synopsis Submitted to

Shri Vaishnav Vidhyapeeth Vishwavidhyalaya

in partial realization for the award of Degree of

DOCTOR OF PHILOSOPHY IN COMMERCE

By

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ENR NO-2205PHDCM10534 in July 2023

Under the Guidance of

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Session -2022-2023

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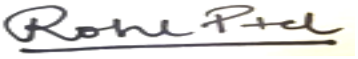
Signature 

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I hereby declare that work which is being presented in the synopsis entitled **Impact of Goods and Service Tax on Agriculture sector (With Reference to Harda District)** is carried out by me. I declare it to the best of my knowledge and belief, the synopsis does not contain any part of any work which has been submitted for the award of any degree either in this University or in any other University/ Deemed University without proper citation.

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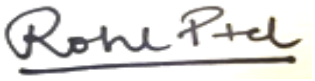

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Date:13/07/2023

Place: Indore

Plagiarism check Report

Document Information

Analyzed document	SYNOPSIS SVVV FINAL-ROHIT PATEL wts.docx (D172040810)
Submitted	2023-07-13 07:11:00
Submitted by	headlibrary
Submitter email	head-library@svvv.edu.in
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ACKNOWLEDGEMENT

It is not possible to comprehend wide array of knowledge without proper guidance. I shall forever remain indebted to my Guru, my Supervisor **Dr. Jaikishan Sahu**, Faculty of Doctoral Studies and Research, Shri Vaishnav Vidyapeeth Vishwavidyalaya, Indore for his valuable support and guidance.. I feel privileged for the opportunity he gave me to work under his kind guidance. I am grateful for the time he invested in me for improving my imperfections with patience and for the relentless efforts he has put in for revising the drafts meticulously.

My immense gratitude to my guide **Dr.Jaikishan Sahu,** for his influential and inspiring mentorship. The sculpture of this Synopsis would not have been achieved, both in content and presentation,without **Dr. Jaikishan Sahu's** persistent interest, guidance, personal care,feedback and support. Strengthening me with his incomparable expertise, he allowed me enough space to explore my own ideas and directed me towards persistent improvement. It was his incessant zeal for perfection which brought out possibly the best of my efforts in completing this work. It was indeed a privilege to be under his guidance and learn from his meticulousness and creative intellect.

I shall remain equally indebted to **Dr. Upinder Dhar**, Hon'ble Vice Chancellor, Shri Vaishnav Vidyapeeth Vishwavidyalaya for being a constant inspiration.The support of **Dr.Santosh Dhar**,Dean FDSR is also unmatched.

I would also like to thank **faculty and staff members** at **Shri Vaishnav Vidyapeeth Viswavidyalaya**, Indore for all the support extended to complete this work.

I appreciate my **fellow colleagues** for their cooperation. I feel gratified towards all the members of my family who are supporting in my research journey. Last but not the least, I thank the Almighty for all the courage and blessings.

Rohit Patel

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1.INTRODUCTION

Agriculture is a fundamental component of the Indian economy, accounting for approximately 16% of the country's GDP and employing approximately 42% of the total population. As India is a leading exporter and producer of agricultural products, such as wheat and rice, as well as pulses and sugarcane, these products are essential for the country's economic well-being.

Small and marginal farmers make up a substantial portion of the Indian agricultural sector; hence, Indian farmers are exempt from paying income tax.However, a number of indirect taxes were imposed on agricultural inputs before to the Goods and Services Tax's adoption in 2017, which had an impact on the farmer's farming expenses.

The Goods and Services Tax (GST) was put into effect by the Government of India on July 1, 2017, with the slogan "One Nation, One Tax." GST is one of the major taxation reform undertaken by Government to foster economic growth and development of India by removing flaws in the Indirect taxation system.

GST is an unified tax which subsumes majority of the indirect taxes levied by the Central and the State Governments.Central Excise tax,Service tax,VAT,Central sales Tax,Additional Custom Duty etc where some of the indirect taxes levied by Government in pre GST era.Now,GST is an single indirect tax to be levied on the supply of goods and services.

The GST council set up by Government of India under article 279(1) of the constitution of India governs the implementation of GST in the country.It is an federal body consisting of representatives of both central and state government that meet periodically to discuss on recommendations put forth by various members.It is headed by Union Finance Minister with Minister of state(Finance) as its deputy chairman.Minister of Finance of different states acts as its members.

In the meeting of GST council the recommendations put by various members are put to vote and accepted or rejected on the basis of majority.

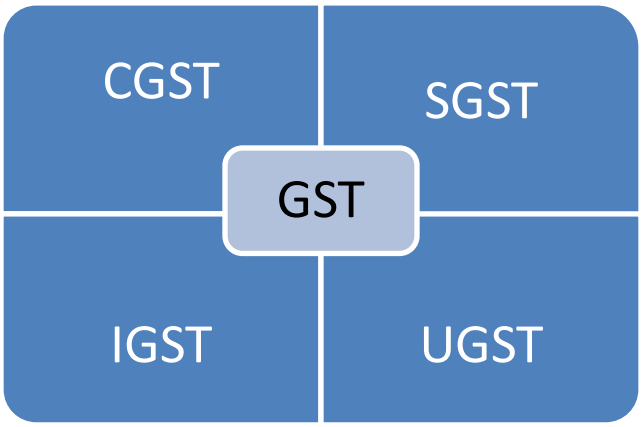
Till July 2023 , the GST council have met up for 50 times.

GST was implemented with the aims -

- To achieve uniformity in Indirect taxation by levying single tax
- To remove cascading effect of taxes
- To eradicate tax avoidance and tax evasion
- To increase the tax base.
- To streamline tax procedure.

Components of GST

- CGST- collected by Central Government for transactions within a state.
- SGST-collected by State Government for transactions within a state
- IGST- collected by Central Government for sales that are done on inter-state basis.
- UGST- Collected by Government of Union Territories for sales of goods within union territory.



GST on Agricultural sector

Under the Goods and Services Tax (GST), agriculturalists are exempt from the tax. However, companies involved in agriculture are required to comply with the GST. Dairy farming, animal breeding and poultry farming are not exempt from the tax in India. Most of the farmers who grow crops also engage in dairy farming and poultry farming as a side income. Since the farming is dependent on the weather conditions, growing crops in India does not guarantee a fixed income for the farmers. Prior to the introduction of the Goods and Services Tax (GST), raw milk produced and sold by small dairy farmers was not subject to taxation. However, due to the introduction of Goods and Services Tax, small dairy farmers are now subject to the taxation of raw milk, which has hindered their ability to compete with the larger dairy companies.

Before the introduction of the goods and services tax (GST), agricultural machinery such as threshing equipment, tractors and harvesters were taxed at lower rates. However, after the introduction of the Goods and Services Tax (GST), they are taxed at much higher rates which has caused inconvenience to the farmers.

Agriculture products like micronutrient fertilizers,pesticides,plant growth regulators which form a substantial portion of farming cost attract higher rates of taxation under GST compared to pre GST regime.

While farmers are not taxed on their farm produce or income, they are taxed on their farm inputs such as Pesticides, Motor Pumps, Tractors etc. which attract the Goods and Services Tax (GST).

Since the agriculture sector contributes to the Indian economy in terms of Gross Domestic Product (GDP) and employment, it is essential to analyse the impact of the Goods and Services Tax (GST) on the agriculture sector.

Advantages of GST on Agricultural sector

- The implementation of the Goods and Services Tax (GST) is expected to create a National Agricultural Market, where farmers will be able to sell their produce across the country, where they will be able to get fair prices for their farm produce. Previously, the sale of farm produce between different state governments resulted in a lot of taxes. GST will solve this problem by providing a single tax across the country.
- GST has replaced multiple indirect taxes in agriculture sector to a single tax which has enhanced ease of doing business in agro sector.
- The implementation of the Goods and Services Tax (GST) would make the market chain seamless and eliminate the bottlenecks in the transportation of goods between inter state farm produce.
- Experts in the agricultural sector are of the view that in long run GST would lead to cut in the farm machinery prices thereby benefitting the farmers.
- Organic manure is exempted from GST which will encourage the practice of organic farming.

Disadvantages of GST on Agricultural sector

- Pesticides and micronutrients are subject to high taxes under the Goods and Services Tax (GST) regime which leads to an increase in the input cost for the farmer.
- The taxation of tractors, agricultural machinery, and motor pumps are now subject to a higher rate of assessment than previously. This is a major handicap for farmers, as the cost of such machinery has increased significantly.
- Warehouse construction is now subject to 18 percent Goods and Services Tax (GST). This makes it more expensive for farmers to store food grains in warehouses.

- Under the previous regime, food products such as meat, dairy products, fruits and vegetables were not subject to taxation. However, under the GST regime, these products are subject to taxation. This increases the tax liability of the farm sector.
- Purchase of threshing equipment which was not taxed before now attracts taxation under GST.This has led to escalation in harvesting costs for farmers.
- The introduction of National Agricultural market was supposed to bring better prices for farm produce, but most of the farmers have not been able to sell their produce through the market due to lack of clarity on the mechanism and network of local traders.
- Dairy Farming,Poultry Farming and Stock breeding comes under the purview of GST which is a side income for majority of farmers.
- While the Goods and Services Tax (GST) Act has been in place for 5 years, its positive impact on the agriculture sector has been lacking.

Comparison of Farm inputs Pre and Post GST in Madhya Pradesh

Table 1.1

ITEMS	PRE –GST RATES (in %)	POST GST RATES(in%)
Chemical Fertilizers	5	5
Micro Nutrient Fertilizers	5	12
Plant growth regulators	5	18
Pesticides	12	18
Seeds	0	0
Electrical pumps and oil engines	5	12
Tractors and power tillers	5	12
Harvesting and threshing equip.	5	12
Milking and Dairy Machinery	5	18

The above table 1.1 shows that prices of majority of farm inputs have increased after the implementation of GST Act.

Profile of Harda district

Harda district is located in the central region of Madhya Pradesh. It is one of the least populated and land-rich districts in the state. The area is rich in agricultural produce such as wheat, soyabean, gram and pulses. About 85% of the population is involved in agriculture. The literacy rate is 72.5%. The sex ratio is 935 per 1000 males.

2.REVIEW OF LITERATURE

Thakur et al. (2017) in their study on impact of GST on agriculture: A Review stated that Prior to GST, agricultural products were subject to a variety of taxes; however, the implementation of GST will make the system more transparent by establishing a uniform tax structure.

Tharani and Ahmed (2017) in their research on impact of Goods and services tax in agricultural sector in India concluded that Farmers' input costs may rise somewhat as a result of GST, inflating agri prices.However, the single unified market will help farmers and wholesalers in the long run.Because of the many rules enacted by states, the current arrangement makes centre support impossible.The GST tax credit scheme will increase interstate trade.

Roshni et al. (2017) investigated impact of goods and services tax on Tamil Nadu economy with special reference to Agriculture and allied sector.Authors concluded that by integrating the tax system, GST would minimise the tax burden.It will meet the needs of both the farmer and the consumer.Through an integrated National Agriculture Market, it will make the transportation of agricultural products easier and boost market efficiency.

Banu et al. (2018) in their study on GST and its impact on agricultural sector stated that Gst is the most significant tax change in the Indian economy.Some commodities will see price

decreases, while others may see price increases.Some states' financial resources could be reduced.Farmers, who contribute considerably to the Indian economy, will benefit from the best possible market prices under GST.GST will address the issue of transportation, which is a key impediment in the agriculture industry.

Aziz et al. (2018) in their study on GST and its impact in agricultural and fishery products concluded that due to rise in prices of farm inputs after implementation of GST,the cultivation costs for farmers will increase, which in turn will affect the farmers adversely.Also,due to unified price of farm inputs in all the states,it will be not possible to get cheaper inputs as in pre GST regime.

Singh et al. (2018) in their study on GST in India: reflections from food and agriculture concluded that in India where majority of farmers are small and marginal,the rise in price of agri inputs will have negative impact on both the production as well as the income of the farmers.Reduction in rate of micro nutrient fertilizers and agricultural machinery must be considered by the government.

Balamurugan (2019) studied the effect of GST on Agriculture-Input Market in India found that increase in price of farm inputs and stagnation in prices of farm produces due to market forces will put double burden on Farmers.The Government should be very cautious in implementing GST on agriculture related products and machineries as slightest hike in rate of farm inputs will negatively effect the already vulnerable section of Indian economy.

Bansal and Sharma (2020) in their study on impact of Goods and Services tax on Agriculture sector in India stated that with the introduction of GST, there will be a uniform indirect tax which will boost the agriculture segment in India, seeds and organic fertilizer will not affect the

prices of farm inputs. Also, the price of chemical fertilizers will be reduced under the GST system, which will reduce the cost price of the farm compared to pre-GST times. A small fraction of the additional cost of agricultural inputs has a small impact on farm costs. Transport charges for agricultural goods, which were exempted before GST, will also be exempted from the GST regime. So farmers and distributors are not affected. The reduction in the cost of agriculture and the provision of a national agricultural market will boost India's agricultural sector. GST would make the tax system more transparent.

Naeem and Khan (2020) in their study on the Social & Economical Impact of GST on Indian Economy concluded that the of the Goods and Services Tax (GST) has also led to an increase in the prices of different agricultural inputs due to the increase in the GST rates. In addition, the CSO has also implementation predicted the negative impact of GST on the agriculture and agricultural sector.

Kumar and Kumar (2021) in their study on impact of GST on agricultural sector concluded that tax rates for micronutrients and fertilizers should be reconsidered. Taxes on agricultural machinery should be reduced to encourage mechanization of marginal and small farms. To overcome the information asymmetry, agricultural producers need to be informed about tax rates on agricultural inputs.

Mamanshetty (2021) in research on impact of GST on agricultural sector found that the impact of the Goods and Services Tax (GST) on the agriculture sector is expected to be both positive and negative. It is expected to have a negative impact on the most traded commodities such as milk, tea and fertilizers. Due to the provision of the National Agricultural market, there will be a

single tax on inter State sale of farm produce. This will help farmers to sell their farm produce across the country and get the best available prices.

Kumar et al. **(2022)** in their study of GST impact on Agricultural and Allied Sectors stated that the Goods and Services Tax (GST) is a crucial step in the Indian economy. Since agriculture contributes more than 15% to GDP, the government has focused on the rates of agricultural products. As a result, the prices of agri commodities have gone down. The National Agriculture Market will provide efficient prices to the farmers of their produce. However, the tax on agricultural machinery has gone up. This is a burden for the farmers. After the introduction of GST, small, inefficient and high cost warehouses have decreased.

Kaur (2022) in study on Impact of GST on Various Sectors of Haryana concluded that the agriculture sector is the largest contributor to India's GDP. It accounts for around 16% of India's GDP. However, the GST rate for pesticides is 18% which will increase the burden on the farmers. The main impact of GST on agriculture would be an increase of inflation of around 4% to 8% on main food items such as cornflakes and profits. Agricultural products have faced a variety of tax rates; as a single rate of GST would help the farmers as well as traders as they would be able to sell their produce anywhere in the country. Over the long term, there will be one integrated national market for agriculture. Therefore, the impact of GST on the agriculture sector is expected to be both positive and negative. It will have a negative impact on milk, tea and fertilizers.

From the above review,it is seen that after the implementation of GST the cost of farm inputs like pesticides,agricultural machinery,plant growth regulators etc have soared up which is resulting in higher farming costs.

2.1 Rationale of the study

The introduction of the Goods and Services Tax (GST) Act is a historic move by the Government as it unifies many indirect taxes into one single tax. The agricultural sector is a major contributor to the GDP of India and employs large numbers of people. Since the majority of the population in India is employed in the agricultural sector, it is essential to analyse the effects of GST on it.

There are fewer empirical studies on the impact of the Goods and Services Tax (GST) on Agriculture sector. This study

- Will help to understand how the implementation of GST has affected the agriculture sector and the expenditure and income of farmers.
- Will help policy makers to understand the impact of the GST and modifications required for the benefit of farmers.
- Will also help farmers to understand how GST has impacted them.

2.2 Objectives of the study

1.To study the impact of GST rates on agricultural input products.

2. To study the impact of GST rates on agricultural equipments.

3.To study the impact of GST on farming costs and farming income.

3.RESEARCH METHODOLOGY

Research Design

This study is analytical and descriptive in nature.Its analyses the impact of GST on agriculture sector as well as describes the important factors that has affected the farming costs and income.

Sources of Data

Both Primary and Secondary data will be used for this study.Primary data is to collected from farmers of Harda district.Secondary data will be collected from various sources like journals,books,newspapers and websites.

Techniques of Data collection

Primary data will be collected from farmers through random sampling method.Data will be collected from a close ended Questionaire through google forms.Secondary data will be referred from various journals,books,newspapers,Government reports and websites.

Sample size –

The sample size of this study is 500 farmers of Harda,Khirkiya and Timarni Tehsils of Harda district of Madhya Pradesh.

Analysis of Data

Data collected through respondents will be investigated ,analysed and interpreted through simple statistical tools like frequency tabulation,Percentages,charts and diagrams..For testing of hypotheses ,Regression Analysis and ANOVA will be used.SPSS is to be used for analysis of data.Hence, both descriptive and inferential statistics would be used for analysis of data.

Hypotheses of the Study-

Null Hypotheses:

H_0- There is no significant impact of GST on agricultural input products.

H_{01}- There is no significant impact of GST on agricultural equipments.

H_{02}-There is no significant difference on awareness of GST among Farmers.

H_{03}-There is no significant impact of GST on dairy farming.

H_{04}-There is no significant impact of GST on Farming costs.

H_{05}-There is no significant impact of GST on Farming Income

Alternate Hypotheses:

H_a- There is a significant impact of GST on agricultural input products.

H_{a1}- There is a significant impact of GST on agricultural equipments.

H_{a2}-There is a significant difference on awareness of GST among Farmers.

H_{a3}-There is a significant impact of GST on dairy farming.

H_{a4}-There is a significant impact of GST on Farming costs.

H_{a5}-There is a significant impact of GST on Farming Income.

4.IMPLICATIONS

The implementation of the Goods and Services Tax (GST) has had a mixed effect on the Agriculture sector. While there has been a lot of talk about the advantages of the GST for agriculture, its negative impacts have not been fully acknowledged. As the cost of agri inputs has increased, the difficulties of farmers in meeting their agricultural expenses have been exacerbated. Despite the government's promises to double the income of the agriculture sector, no tangible results have been observed.

This study will be helpful for the policy makers to understand the effect of GST on Agriculture sector.Also it will help farmers to understand how GST has impacted their farming costs and income. The results of this study will also initiate further research.

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6.PROPOSED CHAPTER PLAN

CHAPTER 1 –INTRODUCTION

This chapter will comprise of theoretical background of the study,introduction to the Goods and Service Tax(2017),impact of GST on Agriculture Sector,Profile of Harda district of Madhya Pradesh,need for the study,scope of the study,statement of research problem,research questions,objectives and hypotheses.

CHAPTER 2 –REVIEW OF LITERATURE

This chapter provides a comprehensive overview of the literature collected from various sources pertinent to the current study, in order to elucidate the rationale for the research gap, taking into account the field of study, objectives, results and recommendations of those studies.

CHAPTER 3 –RESEARCH METHODOLOGY

In this chapter, the statistical techniques and tools used to test hypothesis to obtain true and practical results are discussed.

CHAPTER 4 –DATA ANALYSIS AND INTERPRETATION

In this chapter, the statistical tools employed in the preceding chapter are evaluated and interpreted in order to gain a more comprehensive understanding of the outcome.

CHAPTER 5-SUMMARY OF FINDINGS,SUGGESTIONS AND CONCLUSION

This chapter offers a brief overview of the main outcomes and topics discussed in chapters 3 and 4, as well as recommendations for significant modifications to the Goods and Services Tax (GST) applicable to the agriculture sector.It also includes limitations of the study.

CHAPTER 6 –IMPLICATIONS

In this chapter implications of the study will be discussed.

ANNEXURE:

Bibilography

References

Appendix